

VERMONT STATE TEACHERS' RETIREMENT SYSTEM

Meeting of the Board of Trustees – In House Meeting

February 9, 2016 – 9:00 a.m.

Members present:

JON HARRIS, Chairperson, term expiring– July 1, 2019

JOSEPH MACKEY, Vice-Chairperson, VRTA representative, term expiring July 1, 2016

JUSTIN NORRIS, Active Member Representative, term expiring July 1, 2017

LINDA DELIDUKA, VRTA Alternate representative, term expiring July 1, 2016

DANIEL RADDOCK, Financial Regulation Representative

ELIZABETH PEARCE, VT State Treasurer

Members absent:

DEBORA PRICE, representing Secretary of Agency of Education

Active Member Alternate Representative – vacant

Also attending:

Michael Clasen, Deputy Treasurer

Laurie Lanphear, Director of Retirement Operations

Joshua McCormick, assistant to Kathie Kretzer

John Booth, Director of Treasury Operations

Katie Green – Investments Manager

Nick Foss – Investments Analyst

Mark DiStefano, Attorney General's Office

Chip Sanville, Empower Retirement

Valerie Baker, Empower Retirement – via telephone

Mark Hage – Vermont NEA

The Chairperson, Jon Harris called the Tuesday, February 9th, 2016, meeting to order at 9:04 a.m., which was held in the Governor's Fourth Floor Conference Room, fourth floor, 109 State Street, Montpelier, VT.

Ms. Pearce introduced the board to Michael Clasen, the new Deputy Treasurer.

ITEM 1: Approve the Minutes of:

- **January 14, 2016**

On motion by Ms. Pearce, seconded by Mr. Norris, the Board voted unanimously to approve the minutes of January 14, 2016, as submitted.

ITEM 2: VEHI Update

Mr. Hage introduced himself to the Board and gave an overview of changes over the past few years for VEHI. He discussed with the Board the parameters and requirements for the schools to stay in grandfathered status with VEHI until its current plans are closed on December 31, 2017. As of 1/1/18, schools that elect to stay with VEHI will transition to new, non-grandfathered, ACA-compliant plans, with lower premiums and higher out-of-pocket costs. The new plans will be similar to, but not identical, to plans offered on Vermont Health Connect. Mr. Hage also stated that as of 1/1/18, current plans for retirees of the VSTRS system will be retained for the time being, while active employees and their dependents will move to the new VEHI plans if their school districts opt to stay in VEHI. There was also discussion about small and large school districts, and on whether VEHI will be permitted to serve both in 2018. Mr. Hage stated that VEHI is awaiting a final regulatory ruling from the Center of Medicare and Medicaid Services (CMS) on this question, and has introduced legislation on this matter in Vermont should CMS issue a ruling requiring such legislation. If VEHI does not secure the authorization it needs to serve both small and large school districts after the closure of its current plans, then small schools, those with 100 or fewer full-time employees, would be required under Vermont law to purchase health benefits on Vermont Health Connect; large schools could opt to remain with VEHI and purchase its new plans.

Mr. Hage stressed that any changes in the future to VSTRS-VEHI plans would come only after much research and discussion with VSTRS on the impact of such changes on retirees and the retirement system, as well as on VEHI.

Mr. Hage then stated that rates for fiscal year 17 increased by 7.9 percent. This is mainly due to medical inflation and rising drug costs. Ms. Pearce requested to the Board to do some follow up to the effects on the system, particularly OPEB liability and the rates associated with VSTRS.

On motion by Ms. Pearce, seconded by Mr. Mackey, the Board voted unanimously to authorize the Treasurer's Office to conduct two separate studies with Buck Consultants and work with VEHI to conduct an audit of EGWP, and to review the implications to the OPEB liability and rates associated with VSTRS based on new plans and directions that VEHI has articulated.

Mr. Clasen left the meeting at this time.

ITEM 3: Empower Retirement Presentation

Ms. Baker spoke with the Board about the latest fund performance review. All Funds are passing and there are no significant changes from the last review. She stated that the Pax World Global fund has a neutral Mstar Rating, but it is a newer fund and it is trending well. T. Rowe Price is performing really well.

Ms. Baker left the meeting at this time.

Mr. Sanville stated the new participant fee for deferred compensation will become effective on 3/1/16. Mr. Sanville presented to the Board the latest quarterly results for the VSTRS Retirement plan (10/1/15 – 12/31/15). He went over the latest results of Total Assets, Asset Growth, and the percentage of Assets by Asset Class. Asset Growth is up 14.6 percent since 12/31/14. Participants since 12/31/14 have risen from 2,131 to 2,398. Mr. Sanville then went over with the board the percentage of Contributions History, Contributions by Fund, Plan Participation, Benefit Payment Distribution, and field activity for the last quarter and all of 2015.

Mr. Sanville gave an overview of the latest SDIA quarterly report. Plan Assets have reduced by \$1.77 million this quarter and 8.1 percent in the last year. There are still 1,420 participants in the plan. There are no participants under the age of 49, and 1,087 of the participants are over the age of 65. The rate of return is at 2.35 percent.

Chip Sanville left the meeting at this time. A ten minute recess was taken.

ITEM 4: VPIC Chairman Update

Ms. Pearce informed the Board that the new VPIC chairman is Thomas Golonka. The former chair, Stephen Rauh, stepped down as of 12/31/15.

Nick Foss and Katie Green left the meeting at this time. John Booth joined the meeting at this time.

ITEM 5: VSTRS FY 2017 Budget Overview

Mr. Booth discussed with the Board the VSTRS FY' 17 budget overview and breakdown of categories: Investments, Agency Support, Third Party Support, Benefits, and Office and Administrative Support. The total VSTRS budget for FY' 17 is \$41,172,393.

On motion by Mr. Mackey, seconded by Mr. Norris, the Board voted unanimously to accept the VSTRS FY' 17 Draft budget as presented.

There was a discussion about the VPAS project being under budget. Ms. Deliduka would like to have this mentioned in the next retirement newsletter.

ITEM 6: Miscellaneous Retirement Bill

Ms. Lanphear spoke about items that will be in the Miscellaneous Retirement Bill to submit to the legislature. For all three systems, a proposal for a smoothing/safe harbor process for negative cost of living adjustments (cola's) will be added.

On motion by Mr. Mackey, seconded by Mr. Norris, the Board voted unanimously to support the recommended change to the COLA calculation to create a safe harbor that would preclude a negative COLA while at the same time making it cost neutral to the VSTRS system.

There was a discussion about the amortization rate and schedule.

The Board discussed the issue of divestment from Exxon and Coal companies. Mr. Mackey stated that VPIC wants investments to not be handled by the legislature. Ms. Pearce advised the Board that she has received resolution packages from multiple organizations stating they do not want investments handled by the legislature.

On motion by Mr. Norris, seconded by Mr. Harris, the Board voted unanimously to support that the responsibility to make prudent investment decisions in accordance with the appropriate statutory and fiduciary requirements, continue to be vested in the Vermont Pension Investment Committee and not the Legislature or any other entity.

A copy of this resolution will be provided to the State Treasurer and the Vermont Pension Investment Committee and used in support of the continued decision making authority of said Committee.

Mark DiStefano joined the meeting at this time.

ITEM 7: Disability Income Verification

Ms. Pearce gave an overview of the VSERS disability income verification process. Mr. DiStefano reviewed the current statute with the Board. The Board discussed implementing an income verification process for VSTRS. Ms. Pearce advised the Board that she would like to discuss this with other organizations before a process is implemented, such as the NEA. The board agreed.

ITEM 8: Any other business to be brought before the board

none

ITEM 9: Adjournment

On motion by Mr. Norris, seconded by Mr. Mackey, the Board voted unanimously to adjourn at 12:15 p.m.

Next Meeting Date:

The next scheduled VSTRS meeting is a conference call meeting, March 10th, at 3:30 p.m.

Respectfully submitted,



Joshua McCormick
Assistant to Kathie Kretzer